

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

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E.O. 11652: N/A

TAGS: ECON EFIN ENRG ETRN ETRD EAID BF XL

SUBJ: ECONOMIC ALERT REPORT

REFS: (A) STATE 180067, (B) 76 NASSAU A-67, (C) NASSAU 0390,

(D) NASSAU A-19, (E) NASSAU 1169, (F) NASSAU 1122,

(G) NASSAU 0394, (H) NASSAU 0310, (I) NASSAU 1047,

(J) 76 NASSAU A-18, (K) NASSAU A-4, (I) 76 STATE 132614,

(M) NASSAY 0410, (N) NASSAU 0870, (O) NASSAU A17,

(P) STATE 186518

1. EMBASSY RESPONSE TO REF (A) FOLLOWS:

MAJOR ECONOMIC STRUCTURAL CONCERNS AND OUTLOOK (PARTS

A DN B)(REFS (B), (C), AND (\$)) -

(1) BAHAMIAN ECONOMY IS BASED LARGELY ON TOURISM

INDUSTRY WHICH DIRECTLY OR INDIRECTLY ACCOUNTS FOR

APPROXIMATELY 77 PERCENT GNP OR 64 PERCENT OF ITS FOREIGN

EXCHANGE SUPPLY.

(2) FINANCIAL SECTOR IS SECOND MOST IMPORTANT TO ECONOMY,

GENERATING ESTIMATED 13 PERCENT GNP AND 9 PERCENT EMPLOYMENT.

BAHAMAS CENTRAL BANK REPORTS THAT END FY 1976 THERE WERE 78

BRANCHES OF U.S. BANKS, DEALING EXCLUSIVELY IN EURO-DOLLAR

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TRANSACTIONS AND 9 SUBSIDIARIES OF U.S. BANKS

INVOLVED IN COMMERCIAL BANKING OPERATIONS. U.S.

DOMINANCE OF ECONOMY EXISTS IN TOURISM, INVESTMENT,

BANKING AND TRADE. TRADE DOMINANCE WILL CONTINUE

TO INCREASE FOR THE UNITED STATES.

(3) MAJOR SOURCES OF REVENUE IS CUSTOMS WHICH IN

1976 BROUGHT IN 66 PERCENT OF TAX REVENUES AND 55 PERCENT ALL

REVENUES.

(4) WITH POPULATION OF 205,000 (ESTIMATED), UNEMPLOYMENT REMAINS THE MOST IMPORTANT ECONOMIC MALAISE OF THE ECONOMY (ESTIMATED 20-25 PERCENT), AS TEENAGERS LEAVING SCHOOL ARE UNABLE TO FIND JOBS.

(5) BAHAMIAN GDP WILL PROBABLY INCREASE 2-2 1/2 PERCENT IN 1977 (LESS THAN 1976). THIS EXPANSION WILL BE SUSTAINED BY SLIGHT INCREASE IN TOURIST ARRIVALS AND INCREASE IN VISITOR DAYS SPENT IN THE BAHAMAS AND 50 PERCENT INCREASE IN GOVERNMENT'S EXPENDITURE FOR CAPITAL FORMATION (TOTAL \$35.5 MILLION OUT OF ESTIMATED 1977 BUDGET OF \$150 MILLION).

2. AREAS OF CONTINUING AND UPCOMING ECONOMIC CONCERN (PART C):

(1) CIVIL AVIATION: (A) SECURITY MEASURES BEING IMPLEMENTED AT NASSAU INTERNATIONAL AIRPORT (REF (3)). (B) INITIATION OF PRECLEARANCE FACILITY AT FREEPORT, GRAND BAHAMA (REFS (E) AND (F)). (C) PAN AM AUTHORITY FOR SUSPENSION OF SERVICE TO BAHAMAS EXPIRES DECEMBER 15, 1977 (REF (G)).

(2) 1976 TAX REFORM ACT - FAVORABLE REVISION OR POSSIBLE ADMINISTRATION DELETION OF FORSE
N CONVENTION

SECTION WILL BE LOOKED UPON BY GCOB AS IMPETUS TO INCREASE TOURISM HERE (REF (H)).

(3) USAID - NEGOTIATIONS IN PROGRESS TO EXTEND BARTAD PROJECT TO JANUARY 18, 1979 FOR PROCUREMENT OF LIMITED OFFICIAL USE

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EXPERTS (REF (I)).

(4) UNDP - BAHAMAS PROGRAM REMAINING IN STATE OF DISARRAY BECAUSE OF CUTBACKS (REF (J)). PROGRAM FOR 1977-78 NOT YET FIRMED UP. GOVERNMENT WILL BE LOOKING FOR U.S. SUPPORT AT USUN AND WASHINGTON KEEP UNDP LEVEL OF FUNDING AT \$2.5 MILLION (THE SAME FOR 1972-1976 PERIOD).

(5) PETROLEUM - FREEPORT IS MAJOR PETROLEUM REFINING CENTER FOR U.S. IMPORTS (REF (K)). IMPLEMENTATION OF CARGO PREFERENCE REGULATIONS MAY AFFECT CURRENT MOVEMENT OF SHIPMENTS TO BAHAMAS AND MAY INCREASE U.S. COSTS OF PETROLEUM IMPORTS.

(6) BANKING AND FISCAL - (A) RUMORED NEW REGULATIONS, INCLUDING TAXES, AFFECTING FOREIGN BANKS AND TRUSTS NOT LIKELY TO BE IMPLEMENTED WITHIN NEXT YEAR (REF (B)); (B) GCOB DEBT AND DEBT RE FINANCING ARE LIKELY TO INCREASE FURTHER IF THE GOVERNMENT BECOMES DEEPER INVOLVED IN HOTEL INDUSTRY (REF (D)); (C) STATUS OF SEC INVESTIGATION OF INTER-CONTINENTAL DIVERSIFIED CORPORATION (REFS (Q) AND (M)); (D) RUMORS OF DEVALUATION OF BAHAMIAN DOLLAR REMAIN WITHOUT FOUNDATION (REF (M)); (E) THERE WILL BE LESS GRUMBLING OF COLLECTION OF PROPERTY TAX BY AMERICANS

AS ITS PROVISIONS BECOME BETTER UNDERSTOOD (REF (O)).

(7) IDB AND IBRD - IDB MISSION DUE HERE LATE 1977 TO EXAMINE ASPECTS OF POSSIBLE GLOBAL LOAN TO GOVERNMENT FOR USE IN PRE-INVESTMENT STUDIES; TOURIST DEVELOPMENT AND INDUSTRY. ONLY IBRD PROJECT HERE, IN ASSOCIATION WITH CARIBBEAN DEVELOPMENT BANK, IS THE WATER SUPPLY AND SEWERAGE PROJECT, TOTALLING \$10 MILLION, WHICH HAS ONLY RECENTLY GOTTEN UNDERWAY.

(8) OPIC AND EXIMBANK - IN ABSENCE OF INVESTMENT TREATY, THE BAHAMAS IS INELIGIBLE FOR OPIC PROGRAMS (REF (P)). EMBASSY IS UNAWARE OF ANY NEW MAJOR U.S. OR OTHER FOREIGN INVESTMENT PLANNED WITHIN COMING TWELVE MONTHS. NO DIRECT EXIMBANK LOANS HAVE BEEN GRANTED SINCE 1972. NO PROBLEMS EXIST WITH REGARD TO EXIMBANK PROGRAMS ALTHOUGH LIMITED OFFICIAL USE

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TOTAL AUTHORIZATIONS (GUARANTEES AND INSURANCE) FOR 1976 OF \$2,508.374, MIGHT BE CONSIDERED EXTREMELY SMALL WHEN COMPARED TO \$278.9 MILLION C.I.F. IMPORTS (71 PERCENT OF TOTAL) ORIGINATING FROM U.S. IN 1976.
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